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SHELL OIL COMPANY 1966 ANNUAL REPORT

Virtually all the new Shell service stations added in 1966 were of ranch-style architecture which can be varied to blend with the regional residential architecture as illustrated by this station in southern California. Stations are now selling up to 32 different Shell specialty products and the recently introduced line of Shell-branded batteries and filters along with motor oils and gasoline.

THE ANNUAL REPORT

SHELL OIL COMPANY

1966

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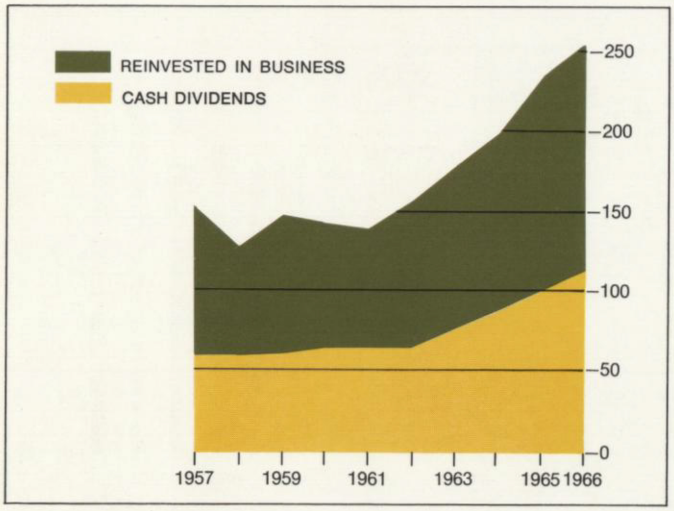
The Annual Meeting
of shareholders will be held at the Americana of New York (Royal Ballroom A), 52nd to 53rd Streets East of Seventh Avenue, New York, N. Y., at 11 A.M., Thursday, April 27, 1967. A formal notice of the meeting, together with a proxy statement and form of proxy, will be mailed to shareholders.

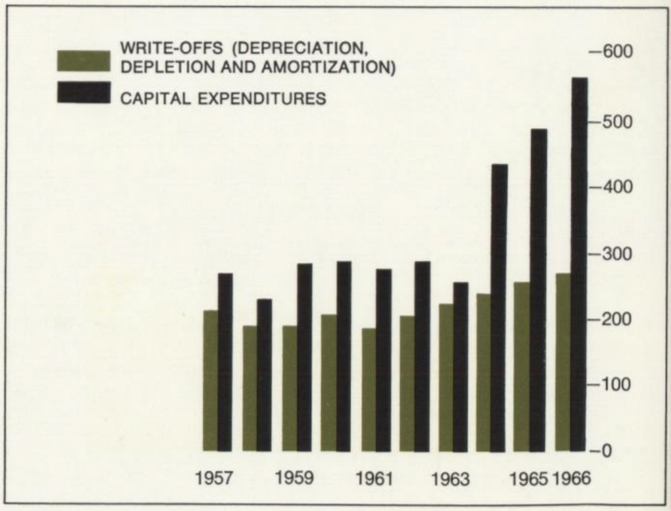
HIGHLIGHTS OF THE YEAR

FINANCIAL	66	65
Revenues	$3,366,041,000	$3,104,918,000
Net Income	$ 255,200,000	$ 234,031,000
Net Income per Share	$4.19	$3.85
Cash Dividends	$ 115,731,000	$ 103,194,000
Cash Dividends per Share	$1.90	$1.70
Capital Expenditures	$ 563,975,000	$ 488,840,000
Cash and Short Term Securities	$ 192,905,000	$ 215,873,000
Working Capital	$ 416,933,000	$ 412,283,000
Long Term Debt	$ 553,107,000	$ 415,535,000

NET INCOME
(Millions of Dollars)

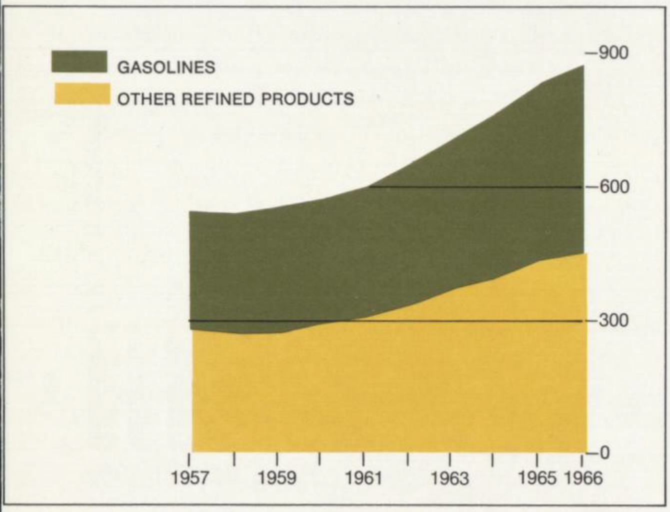


CAPITAL EXPENDITURES AND WRITE-OFFS
(Millions of Dollars)

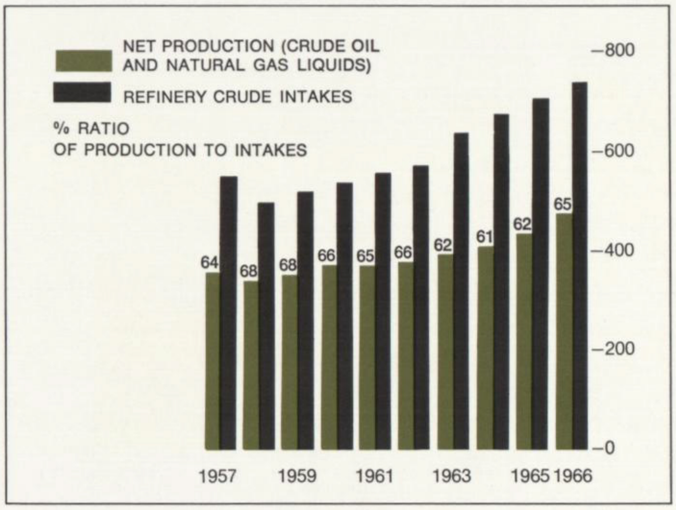


OPERATING	66	65
Net Wells Drilled	772	678
Gross Crude Oil and Natural Gas Liquids Produced—Daily Average Barrels	543,000	493,000
Net Crude Oil and Natural Gas Liquids Produced—Daily Average Barrels	474,000	431,000
Refinery Crude Intakes—Daily Average Barrels	733,000	700,000
Refined Products Sold—Daily Average Barrels	872,000	830,000
Number of Employees at End of Year	37,058	34,548
Salaries, Wages and Employee Benefits	$ 394,594,000	$ 360,393,000

REFINED PRODUCTS SALES
(Thousands of Barrels per Day)



NET PRODUCTION AND REFINERY CRUDE INTAKES
(Thousands of Barrels per Day)



TO THE SHAREHOLDERS:

We are pleased to submit herewith a review of the operations of Shell Oil Company and its subsidiaries for 1966, together with the related financial statements.

The year was a good one for the petroleum industry and for most phases of the chemical industry. The Company again established new records in the volumes of crude oil and natural gas produced, refinery intakes, and sales of petroleum and chemical products. The high level of operations, accompanied by the continuation of relatively stable and somewhat higher prices for petroleum products, particularly gasoline, and for most chemical products, resulted in new highs in total revenues and earnings for the fifth consecutive year.

Consolidated net income in 1966 was $255.2 million, or $4.19 per share. This was $21.2 million, or 9 percent, more than in 1965. Dividends were raised for the fourth successive year. They amounted to $1.90 per share in 1966, compared with $1.70 in 1965. The rate of return on shareholders' investment continued to improve. Total revenues rose $300 million, to $3.4 billion, a gain of 8.4 percent.

As the Company's activities increased, costs and expenses rose 8.4 percent over 1965. Major contributing factors were greater purchases of oil products to meet the expanded demand, increased excise and sales taxes, and higher operating and selling expenses, including costs associated with the start-up of new refinery and chemical units.

Capital expenditures of $564 million last year were the largest in the Company's history. The programs for refinery expansion and modernization, new and enlarged chemical plants, extension and improvement of marketing facilities, and intensified exploration and production have brought the three-year total of capital expenditures by the Company to nearly $1.5 billion. In addition, exploration expenses amounted to $77 million in 1966 and a total of $227 million in the past three years.

It is expected that the general economy will continue to expand in 1967, but at a somewhat slower pace. An increase in total domestic demand for petroleum approaching 4 percent and a slightly larger gain for automotive gasoline seem probable. To meet the steadily rising demand for the Company's petroleum and chemical products, further substantial investments of capital will be required for modernization as well as expansion. To provide additional funds for general corporate purposes, the Company in March, 1967, arranged to make a public offering of an issue of $150,000,000 debentures due 1992.

The Company should benefit from improvements in all phases of its business, including a further increase in its share of the gasoline market as well as from improvements in earnings from chemical operations. Furthermore, the benefits from the large investments in the expansion and modernization of the Company's refineries at Martinez, California, and Norco, Louisiana, will begin to accrue at a rising rate this year. These factors should result in continuing growth that compares favorably with that of the domestic oil industry.

During the past year, public attention has been directed increasingly to the subject of air and water pollution. This is a subject which is of genuine concern to us, and we wish to assure you that Shell is continuing to spend the capital and adopt the operating procedures necessary to maintain its traditional position as a conscientious citizen. Shell, and the petroleum and chemical industries generally, strongly favor all reasonable improvements which may be needed to maintain the purity of our air and water. For this reason we and others are actively supporting research programs directed to the development of air and water quality criteria adequate to protect the public health.

We wish to take this opportunity to express the sincere appreciation of the Board of Directors for the devoted service and contributions of two Direc-

March 15, 1967

tors who are retiring after distinguished careers with the Company. In accordance with the Board's retirement policy James H. Doolittle, Lieutenant General, United States Air Force, Retired, will not stand for re-election at the forthcoming Annual Meeting of Shareholders. General Doolittle joined the Company 37 years ago as Manager of the Aviation Department after having achieved an outstanding reputation as a pioneer military aviator. In the 1930's he provided the main initiative for Shell's heavy investments in research and facilities which led to the first commercial production of iso-octane, the basis for 100-octane gasoline, a highly valued aviation fuel in World War II. After the war, in which he had an illustrious record, he returned to Shell and was elected a Vice President and Director in 1946. He retired as Vice President at the end of 1958. General Doolittle is eligible for, and will be nominated to, the honorary position of Emeritus Director in order that his interests in and contact with the Company may be retained.

J. E. Clark, a Director and Executive Vice President in charge of Exploration and Production, retired at the end of 1966 after 34 years' service with the Company. E. G. Christianson, Vice President of the Houston Exploration and Production Area, was elected to succeed Mr. Clark.

We note with regret the deaths in 1966 of Felix A. C. Guepin, a former Senior Vice President and Director, and H. Bloemgarten, a former Vice President and Director. Mr. Guepin served as a Director of Shell Oil Company from 1951 to 1953, and was Chairman of the Board of Shell Chemical Corporation from 1950 to 1956. Mr. Bloemgarten was a Director of Shell Oil Company from 1949 to 1956, and Chairman of the Board of Shell Development Company from 1951 to 1956.

We hope that the following pages of our report will give you an idea of some of the wide-ranging projects in which Shell people are engaged. With our high and increasing level of activity, the task of running what we already have in an optimum way, while insuring that our expansion money is well spent—and for the right purpose in the right place and at the right time—is indeed a challenging one to our people. The Company's success depends in a major way on their abilities and energies, and on the degree to which we can organize so as to allow them to use these talents to best advantage. Thus Shell management at all levels pays special attention to our people, their development and performance. On this occasion we want to say that it has been a pleasure to observe the way in which the organization has risen to the challenges and opportunities of this record year, and to thank our many customers and shareholders for the privilege of serving them. We hope to merit their continuing support.

* * * *

The following review of operations is divided according to the three major segments of the Company's business. The first is Exploration and Production. The second consists of Manufacturing, Transportation and Supplies, and Marketing. This is referred to in the Company as the M-T-M complex, in which a careful balance is maintained among the parts for optimum profitability. The third is Shell's chemical business. These sections of the review are followed by a description of the supporting staff services and financial statements.

FOR THE BOARD OF DIRECTORS

Monroe E. Spaght

Monroe E. Spaght
Chairman

R. C. McCurdy
President

E&P

EXPLORATION • PRODUCTION

The growth in recent years of the Company's programs for finding and producing crude oil and natural gas continued throughout 1966 with the support of a substantial capital investment. The volume of liquid hydrocarbons produced last year averaged 474,000 net barrels a day, 10 percent more than in 1965, while natural gas production was 1.83 billion net cubic feet a day, up 13 percent over 1965.

Reserves

Despite record production in each of the past three years, developed net reserves at the end of 1966, estimated at 1.9 billion barrels of liquids and 9.0 trillion cubic feet of gas, were greater by 5.6 percent and 12.5 percent, respectively, than the comparable figures reported three years ago. When proved undeveloped net reserves (known to exist but awaiting the expenditure of development capital) are added, proved net reserves at the end of 1966 totaled 2.5 billion barrels of liquids and 10.8 trillion cubic feet of gas, increases of 4.2 percent and 13.7 percent, respectively, over the comparable 1963 figures.

Wells Drilled

An aggressive exploration program of geophysical work and exploration drilling was continued both offshore and onshore. A high level of drilling activity was carried on also for the rapid development of new producing fields. Altogether, 772 wells were drilled in 1966, with results as shown in the accompanying table.

OFFSHORE OPERATIONS

Louisiana

Shell continued to maintain its position of leadership in offshore exploration and production activities. In waters off Louisiana, an intensive program of exploratory drilling last year resulted in discoveries of oil and natural gas in several tests that will lead to development drilling. The largest development program off Louisiana in 1966 was in Federal waters in the West Delta Block 105 field where drilling was continuous from three platforms throughout the year.

Offshore Louisiana leases alone now account for 30 percent of Shell's total daily production of crude oil and condensate. In 1966, five fields were brought into production in Federal waters off Louisiana. By the end of the year, gross oil and condensate production from Federal leases acquired since 1960 amounted to 33,000 barrels a day. Accomplishing this has required the investment of $60 million in the last three years for the construction of 25 multi-well drilling and production platforms in this area. Six of these platforms, costing a total of $13 million, were installed in 1966, and construction was started on five more. Nine stand in water more than 200 feet deep, with four set in record depths of 275-285 feet.

A plan to provide facilities for minimum attendance operation of remote marine fields in south Louisiana has been initiated. The facilities are being installed in relatively inaccessible marine locations to minimize high costs of transporting and quartering personnel.

REVIEW OF DRILLING

	1966	1965
Exploratory Wells		
Completed	161	139
Successful	39	35
Development Wells		
Completed	611	539
Successful	534	413

Texas

Offshore Texas waters continued to gain prominence as additional discoveries were made there in 1966.

(1) *The Artemis, one of Shell's new, larger seismic vessels, enables crews to remain at sea for extended periods of time in carrying on the Company's intensified offshore exploration activities.* (2) *The Buccaneer Gas plant, near Freeport, Texas, is one of two new facilities completed last year for extracting liquids from the rapidly growing volume of natural gas being produced by the Company.* (3) *At the Exploration and Production Research Center at Houston, studies of a scaled model of the actual oil field precede installation of a field-wide thermal recovery operation.* (4) *Results of the research studies conducted at Houston are being applied at the Slocum field, Anderson County, Texas, where Shell began work last year on the first major steam recovery project in the state.*

REVIEW OF 1966 OPERATIONS

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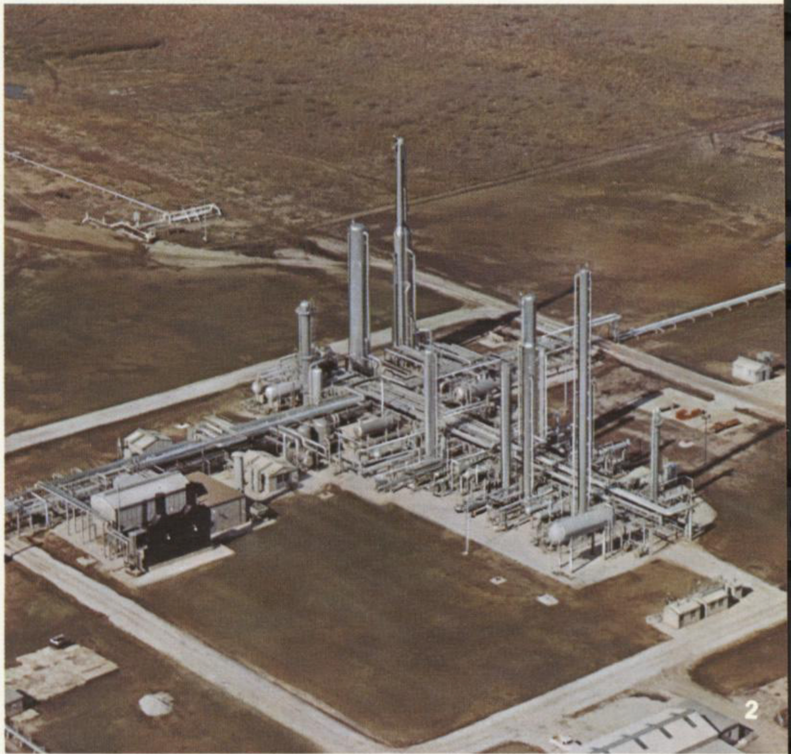
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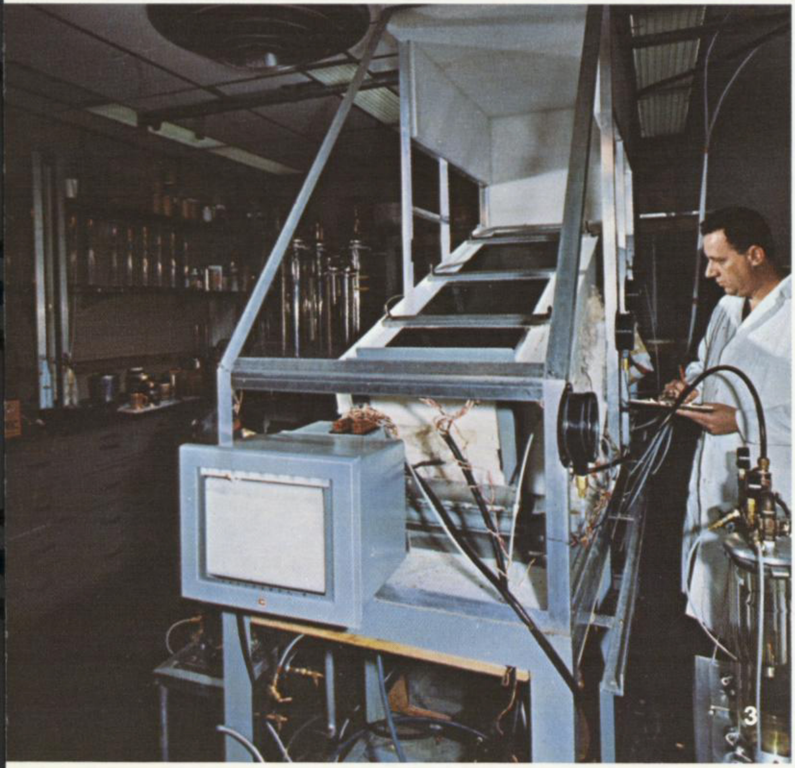
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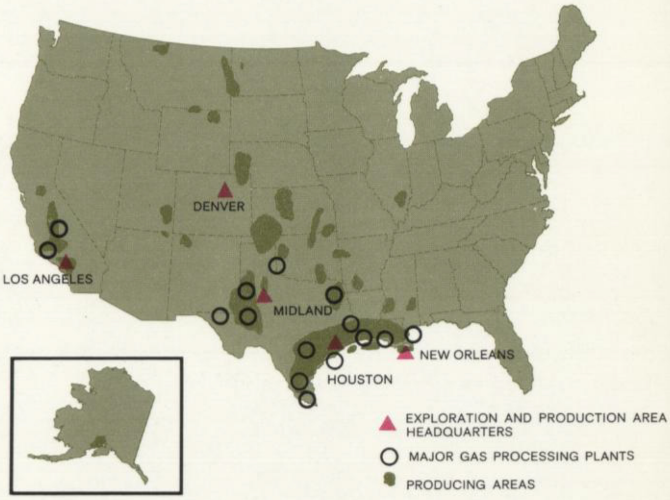
Drilling continues in the Yorba Linda oil field in California, where steam soaking operations which were started in 1960 have obtained a significantly higher rate of production than had been possible with conventional production methods.


DENVER
LOS ANGELES
MIDLAND
HOUSTON
NEW ORLEANS
▲ EXPLORATION AND PRODUCTION AREA HEADQUARTERS
○ MAJOR GAS PROCESSING PLANTS
● PRODUCING AREAS

Shell's exploration and development programs on acreage acquired in the past two years resulted in seven gas discoveries. The Company acquired 39,000 acres in offshore Texas lease sales in 1966, raising total holdings there to 300,000 acres.

Alaska

At the Middle Ground Shoal field in Cook Inlet, Alaska, in which the Company has a one-third interest, Shell continued development drilling from a platform installed in 1965. By the end of the year, eight wells had been completed, and production amounted to 10,000 barrels of oil per day. A second large platform is being fabricated for installation in 1967 at a cost of about $12 million.

ONSHORE OPERATIONS

Discoveries and Development

Intensive exploration efforts in established producing areas resulted in significant discoveries in Wyoming and Texas. Discovery wells were completed during the year at locations both west and east of the Reno field, which was a 1965 discovery in the Powder River basin of northeastern Wyoming. The Reno complex at the end of 1966 included 16 producing wells, and five rigs were active in development drilling. Development drilling is continuing in five deep gas fields in the Delaware-Val Verde basins of west Texas, including the Lockridge field, a 1966 Shell discovery.

Secondary Recovery

Seeking maximum recovery through the economic application of the latest advances in technology, Shell continued to be very active in 1966 in undertaking new secondary recovery projects and expanding existing supplemental recovery operations. During the year the Company produced by these methods an average of 72,000 net barrels of crude oil per day, 15 percent of the Company's nationwide production. Thermal recovery operations have grown significantly on the West Coast in recent years. Last year they accounted for 22 percent of production in the Pacific Coast Area. The Company's first large-scale steam drive project in Texas was begun in the Slocum field in Anderson County.

NATURAL GAS

Volume

The importance of natural gas in the Company's rising trend of production and reserves has increased in recent years, moving ahead even more rapidly last year. The volume of production has more than doubled in the last decade. Market demand for natural gas improved throughout the country last year, and the improvement is expected to continue.

Sales Contracts

Sales of natural gas in 1966 amounted to $121.8 million, up 17 percent over 1965. Some of the largest long-term gas sales contracts ever entered into by the Company were signed last year. They call for deliveries that will exceed 500 million cubic feet per day from fields in west Texas and offshore Texas and Louisiana. Sale of part of the offshore Louisiana gas is contingent upon construction of a gathering system by the Red Snapper Pipe Line Company, in which Shell has approximately a 27-percent interest. The Red Snapper project has received a favorable recommendation from a Federal Power Commission Examiner, but must be approved by the full Commission. A decision is expected this year.

Gas Plants

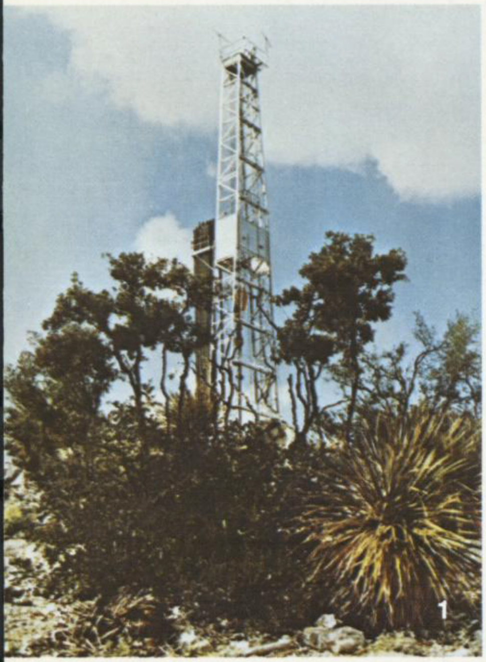
As natural gas production rose, the Company continued to enlarge and improve existing processing plants and to build new ones for recovering liquid products from the gas. In 1966, more than nine-tenths of the gas sold by Shell was processed for the extraction of such products. Daily average production of natural gas liquids increased 11 percent over 1965 to 52,400 barrels. These figures reflected the start of operations of two large new gas plants in Texas which added 9,500 barrels a day to the output of natural gas liquids. One is the wholly-owned Buccaneer Plant, which processes gas from the offshore Buccaneer field, extracting 5,500 barrels of products a day from 175 million cubic feet of gas. The other is the 80-percent-owned Houston Central Plant, a consolidation of two plants, which is currently extracting 22,000 barrels of products from 350 million cubic feet of wet gas daily.

* * *

Research

Since tremendous quantities of oil are still being left unrecovered in known oil deposits even with the use of recently improved recovery methods, this phase of Shell's research continues to receive considerable attention. Efforts to extend the Company's ability to drill and produce oil and gas fields economically in deep water are also continuing.

(1) *In the Delaware-Val Verde basins of west Texas development drilling is continuing in five deep gas fields, including the Lockridge field, which was discovered by Shell last year.* (2) *The size of platforms being installed in the Gulf of Mexico is illustrated by this model standing by a replica of the Washington Monument constructed to the same scale.* (3) *In Shell's largest development program off Louisiana last year drilling went on continuously from these three platforms in the West Delta Block 105 field.*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MTM

MANUFACTURING • TRANSPORTATION AND SUPPLIES • MARKETING

MANUFACTURING

The volumes of intakes of crude oil and volatiles at Shell refineries in 1966 set a new record for the sixth consecutive year. They averaged 733,000 barrels a day, 5 percent more than in 1965. All manufacturing facilities operated at virtually full capacity.

Expansion and Modernization

Shell's program of refinery modernization and expansion moved ahead as a number of new units came on stream last year. The program is geared to the growing demand for Shell products created by the Company's vigorous marketing activities. Included are new facilities at refineries at Norco, Louisiana; Martinez, California; and Wood River, Illinois.

RATED CRUDE OIL CAPACITY
(Approximate Barrels Per Day)

Refinery	1966	1965
Anacortes	78,000	74,000
Ciniza	14,000	13,000
Houston	145,000	138,000
Martinez	86,000	49,000
Norco	162,000	152,000
Odessa	24,000	24,000
Wilmington	83,000	83,000
Wood River	194,000	194,000
	786,000	727,000

Norco

The two-phase expansion program at the Norco Refinery, begun in 1964, is expected to be completed in 1967. The first phase covered the addition of alkylation facilities and completion of a new crude oil processing unit and a catalytic cracking feed hydrotreater. Facilities completed last year included a naphtha catalytic reforming unit. A hydrocracker and a hydrogen plant were scheduled to start operating early in 1967.

Martinez

The modernization and expansion of the Martinez Refinery was completed last year. The major units in the new complex are a crude unit/vacuum flasher, four hydrotreaters, a catalytic reformer, a catalytic cracker, a hydrocracker, an alkylation plant and a hydrogen plant. They comprise a modern, integrated refinery incorporating the most advanced technology in the industry. While total intake capacity has been expanded 75 percent, to 86,000 barrels per day, the output of automotive gasoline is six times greater than it was because the new units can obtain from the crude oil a product yield of up to 75 percent gasoline.

Wood River

Construction is proceeding on the Wood River Refinery expansion, with completion scheduled for 1968. This major project will raise intake capacity from 194,000 to 245,000 barrels a day. Only higher value light products will be made from the increased crude oil intake. This upgrading of yield will be made possible by the use of low-value residual fuels as raw materials. Already completed are a hydrotreater, which processes feedstock for the catalytic cracker, and a 17,000-barrel-a-day alkylation unit, the largest in the world.

Pollution Control

Throughout the refinery expansion program, Shell has continued its long-standing policy of employing advanced techniques for preventing air and water pollution. The new complex at Martinez illustrates the incorporation of pollution controls in the design of the facilities. The catalytic cracker has a four-stage system for trapping catalyst particles instead of the usual two-stage system. This improvement reduces to the very minimum the amount which can escape into the air. Another important pollution control feature is a sulfur extraction plant which recovers the sulfur compounds from the refinery fuel gas system and converts them to solid sulfur. Other

(1) *A large portion of the Company's refinery expansion and modernization program was completed last year when this light oil processing complex at Martinez, California, was started up.* (2) *The program is being continued at the Wood River Refinery, where this alkylation unit, the largest in the world, was completed last year.* (3) *Fuel costs at Martinez have been substantially reduced by this energy recovery system, one of the largest in the oil industry, which enables waste heat from the catalytic cracker to be used as a source of power and boiler fuel.*

1

2

3

advanced waste-control equipment includes vapor-recovery systems, smokeless flares, and a novel system of removing chemicals, oil and solids from waste water.

Research

Among the latest applications of Shell research is the Sulfolane Extraction Process, an improved method of making high-purity refined hydrocarbons. Plants using this process were recently completed at Houston and Wood River to produce solvent mineral spirits and aromatics. Research is continuing to improve gasoline, jet fuel, lubricants and asphalts and to find better ways of making them.

TRANSPORTATION AND SUPPLIES

Shell continued in 1966 to invest substantial sums for expanding and modernizing its transportation facilities to meet the need of moving increasing volumes of hydrocarbons. Shell Pipe Line Corporation's system carried a record 160.3 billion barrel-miles of hydrocarbons, 4 percent more than in 1965.

California Pipelines

New crude oil pipelines were completed in California from Long Beach to the Wilmington Refinery and from the Sespe field, 25 miles east of Ventura, to Fillmore. Work began on increasing the capacity of the existing crude oil line from Bakersfield to Caliola-Coalinga to carry the greater volumes needed because of the Martinez Refinery expansion. The 90-mile pipeline formerly used to move natural gasoline from Ventura to the Wilmington Refinery was put into the service of carrying automotive gasoline from the refinery to new automated product terminals at Van Nuys and Ventura.

New Lines in Louisiana

Two adjacent lines were constructed in south Louisiana connecting the Norco Refinery with the Geismar Chemical Plant now being built and the nearby Tebone Gas Plant to carry ethane from Tebone to Norco and ethylene from Norco to Geismar. Special construction techniques were required to lay the lines through about 30 miles of swamp.

Two lines were laid in waters off Louisiana. The Bay Marchand Line runs 10 miles from the South Timbalier Block 26 field to an onshore connection. The 44-mile Central Gulf Gathering System, some sections of which are in water 170 feet deep, con-

(1) *Nearing completion at the Norco Refinery is a 500-million-pound per year ethylene plant, the gas treating section of which is shown with the pyrolysis heaters (far right) which crack ethane and propane to form ethylene and propylene and twin gas scrubbing columns (center rear) which remove hydrogen-sulfide and carbon dioxide.* **(2)** *The central control room of the new Martinez Refinery complex is equipped with unusual console-type miniaturized instrument panels which provide improved visibility. Personnel in the control room communicate by radio with operators in the plants.*

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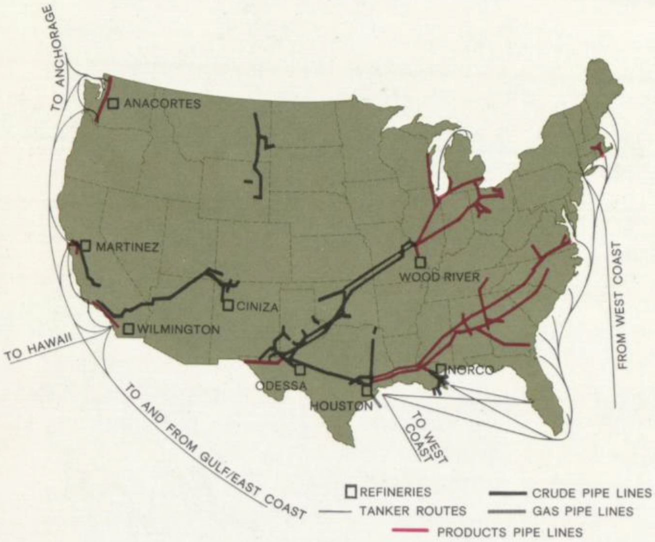


nects Shell production facilities in fields in the Eugene Island and South Marsh Island areas. Additional connections to the onshore pipeline system are scheduled for completion in 1967.

Other Pipeline Expansions

The 24-inch-diameter Rancho Pipe Line System, which transports crude oil from west Texas to Houston, is being expanded. The addition of four mainline stations will increase the capacity of the 460-mile system by about 104,000 barrels a day. In Wyoming, the Reno Gathering System was expanded to move the rising production of crude oil from the growing Reno complex.

New Tanker

A new 36,000-ton ocean tanker, the S.S. Valley Forge, began long-term contract service for the Company. Because of its unusual design, which the Company helped to develop, the ship can carry 17 different types of oil products and chemicals at once. All cargo tanks, except for a few requiring the use of zinc compounds, are coated with Shell Chemical Company's EPON® resins to preserve cargo purity and prevent corrosion. The Valley Forge gives Shell greater flexibility and efficiency in moving products from manufacturing facilities in Texas and Louisiana to markets in the East.

Terminals

Tanks for storing over 900,000 barrels of finished products were built at various terminals. At Collins, Mississippi, and Selma, North Carolina, construction started on new terminals supplied by the Plantation Pipe Line. Major increases in tankage for aviation products were completed near Miami, Florida; Chicago, Illinois; and Anchorage, Alaska. Additional tankage for gasoline and furnace oil was installed at Jackson, Michigan; Knoxville, Tennessee; and Sewaren, New Jersey.

Railroad Cars

Nearly 300 railroad tank cars and hopper cars were bought or ordered for carrying chemicals, liquefied petroleum gas, asphalt, lubricants, plastics and fertilizers. Their total cost will be almost $6 million. Particularly noteworthy in this group of vehicles are a number of specially designed, three-compartment tank cars which are providing more efficient bulk grease shipments between Shell's supply point in New Orleans and the industrial areas of Chicago, Cleveland and Pittsburgh. When all the new cars are delivered, Shell will own about 1,300 railroad cars, augmenting a much larger leased fleet.

Capline Project

Shell initiated moves toward an industry crude oil pipeline from the Louisiana Gulf Coast oil province to the Wood River, Illinois, area in order to meet the rising demand for crude oil requirements foreseen in the Midwest. Shell Pipe Line Corporation has been selected by the eight companies now participating in the project to be the designer, builder and operator of the 640-mile, 40-inch-diameter line, designated as Capline. As now planned, the line will have an initial capacity of over 400,000 barrels a day and will cost more than $100 million. Completion is scheduled for late 1968.

Research

A five-year underwater corrosion research project was started. Sections of treated pipeline steel were driven to varying depths into the floor of the Gulf of Mexico. They will be observed to help develop ways of combating corrosion of underwater pipelines.

MARKETING

Total volume of the Company's sales of refined products rose 5 percent in 1966, setting a new record for the eighth year in a row.

Revenues

Total revenues from all refined products sold increased 8 percent to $1.7 billion. Unit revenues improved by 3 percent over the previous year, due primarily to higher prices for automotive gasoline, intermediates and liquefied petroleum gas.

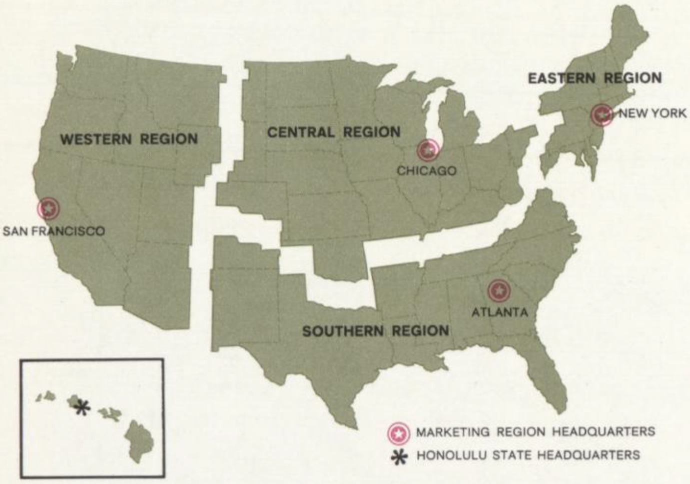
Automotive Gasoline

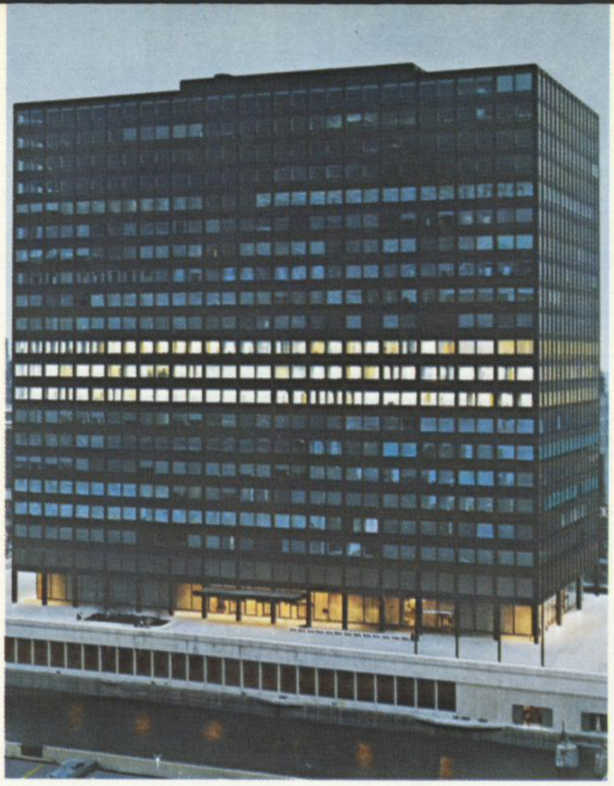
Sales of automotive gasoline increased 8 percent, substantially more than the industry-wide gain of 5 percent. Significantly, the sales volume of Super Shell, the premium grade, gained 12 percent, raising the premium ratio (the sales of premium grade as a percentage of total automotive gasoline sales) to 46, from 44 in 1965, and 35 in 1961. Prices obtained for automotive gasoline in 1966 increased about one-half cent per gallon and were stable in most markets at the highest level since 1957. The Company's share of the automotive gasoline market advanced to an estimated 8.1 percent.

Shell's performance was based to a large extent on the continued development of high volume, profitable new service stations in existing markets and on the generation of more business at existing service stations. The Company continued to eliminate unproductive stations while modernizing certain older productive stations at advantageous locations. As a result of the Company's service station improvement programs, the average monthly gasoline throughput at Shell stations in direct sales territory increased 60 percent in the years 1960 through 1966. Despite the constantly greater dollar investment required per service station, Shell effected a reduction in the capital cost per gallon of new business developed.

The whole sales effort was supported by dynamic advertising and new sales promotions as well as by

When erecting new service stations Shell endeavors to retain trees wherever possible and landscape stations to increase their attractiveness not only to customers but also to residents in the neighborhood.




Offices of the headquarters staff of the Central Marketing Region were moved into this new building in downtown Chicago last year.

campaigns to develop wider use of credit cards, and by greater emphasis on dealer training.

Aviation Fuels

Shell maintained its place as a leading supplier of commercial aviation fuels in the United States in 1966. The volume of aviation jet fuel sales rose to a new high, 8 percent over 1965, despite the 43-day strike involving five of Shell's major airline customers. The distribution of aviation fuels was further improved by the installation of a two-product hydrant refueling system for turbine fuel at the Anchorage International Airport. The airport hydrant system receives supplies through an 8-mile pipeline from a new 3.4-million-gallon storage tank at the Marine Terminal on Cook Inlet.

Lubricants, Distillates and Asphalt

Sales of Shell lubricants, distillates and asphalt recorded good increases in 1966. Sales of diesel fuels and lubricants to railroads benefited from a sustained research effort which has resulted in the development of new and improved products to meet the needs of the advancing technology of the railroads. A new asphalt terminal neared completion at Cincinnati to provide faster, more efficient distribution throughout Ohio, southern Indiana and northeast Kentucky.

Liquefied Petroleum Gas

Unit proceeds and total revenue of liquefied petroleum gas sales were the best in the Company's history. Liquefied petroleum gas volume was up 16 percent. Continued acceleration of liquefied petroleum gas demand for household, commercial and chemical uses is pressing the available supply.

Shell-branded Filters and Batteries

As part of a program for supplying dealers and jobbers with tires, batteries and accessories, the Company introduced a new line of oil, air and gasoline filters and batteries carrying the Shell brand name. This program includes both the distribution of Shell-branded batteries and filters and a purchase-resale arrangement with several major national brand tire manufacturers, under which Shell acts as an independent wholesaler, buying the tires from the manufacturer and selling them to dealers and jobbers.

Specialty Items

The number of products in the Company's specialty line was increased to 32. They include items for home, garden and automotive use. Sales of these specialty items rose significantly in 1966.

Emergency Road Service Plan

Expansion of the Shell-Allstate Insurance emergency road service program continued. Currently over 11,000 qualified Shell dealers are participating in this program which offers towing and other emergency road service on credit to many Allstate automobile insurance policyholders and to members of the Allstate Motor Club.

CHEMICAL

Shell Chemical Company's six divisions set sales records in 1966. Most plants operated at or near capacity. With demand for chemicals continuing to rise and with prices generally firmer than in recent years, sales totaled $400.7 million, compared with $355.4 million in 1965.

Capital Expenditures

Shell Chemical continued to invest in the expansion of its existing lines of business and in pursuing other profitable opportunities. Capital expenditures for chemical plants amounted to $76 million in 1966. This brought the figure for the past two years to over $119 million and lifted Shell's total investment in this area to $435 million.

Agricultural Chemicals

Sales revenues of the Agricultural Chemicals Division had a significant gain over 1965. Aldrin sales in the Midwest corn belt rose substantially as the use of soil insecticides expanded. Cotton and soybean growers enthusiastically received the introduction of PLANAVIN* Herbicide, which is used for preemergent weed control. In the commercial animal health field, a new de-worming medicine for dogs, TASK® Anthelmintic, which was put on the market in 1966, is gaining wide acceptance among veterinarians. In the general consumer field, VAPONA® Insecticide resin strips, under the trademark name, NO-PEST* Insecticide, were test marketed for household use in chain stores in a limited geographic area. The product was well received. The NO-PEST strips are also sold widely through service stations.

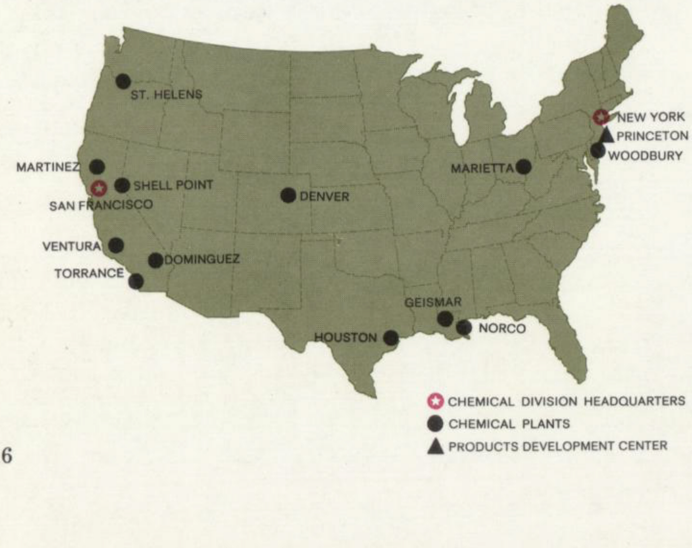
Ammonia

The Ammonia Division added significantly to its manufacturing capacity and expanded the services offered to farmers and other consumers west of the Rocky Mountains. The division's new plant at St. Helens, Oregon, near Portland, turned out its first ton of ammonia fertilizer about midyear, and soon afterward began delivery of urea to growers in Oregon, Washington and Idaho. A substantial volume of the urea from this plant, which produces a material of very high purity, also goes into adhesives used by the important plywood industry of the Pacific Northwest. Advancing its program of adaptation to the growing and changing needs of West Coast agriculture, the division extended its system of owned retail outlets and began building more facilities for custom mixing of dry fertilizers.

Industrial Chemicals

Sales of most of the products of the Industrial Chemicals Division showed good gains for the year. Production of chlorine and caustic soda, substantial

**Shell Trademark*



(1) *The Ammonia Division's new plant at St. Helens, Oregon, began deliveries last year of ammonia fertilizer and urea, the latter used by both farmers and the plywood industry of the Pacific Northwest.* **(2)** *As Shell Chemical expands its activities in the animal health field many tests are conducted on animals for the purpose of developing new products.* **(3)** *Among the new products Shell Chemical introduced last year were wax polymers which provide improved coatings on cardboard used for packaging food and other products.* **(4)** *A growing variety of uses is being developed for Shell's line of thermoplastic synthetic rubbers which can be molded like plastics without vulcanization.* **(5)** *Production of VAPONA® Insecticide strips was increased substantially last year with the introduction of the strips to chain grocery stores and service stations under Shell's new NO-PEST trademark.* **(6)** *This new unit at the Norco Chemical Plant has increased the supply of sulfolane, a solvent required in improved extraction processes used extensively in natural gas plants and refineries.*

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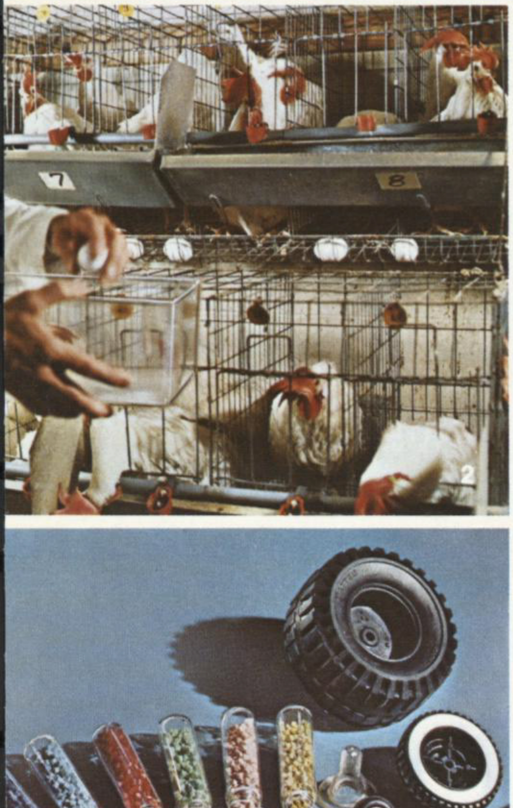
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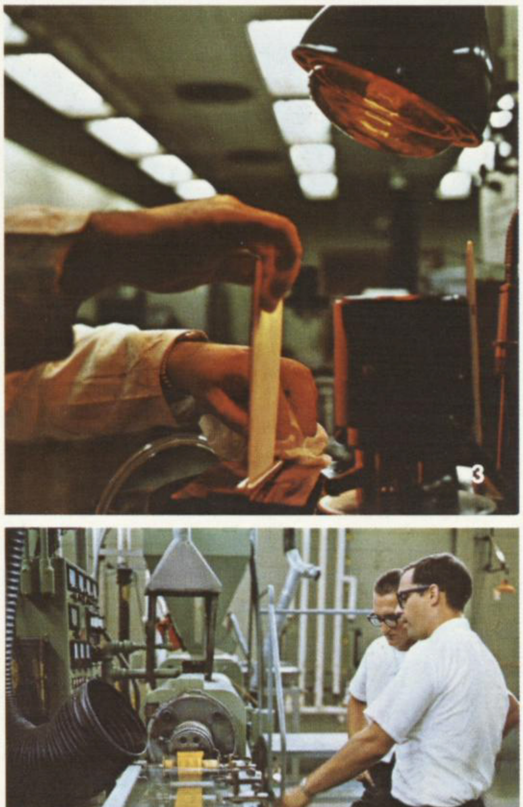
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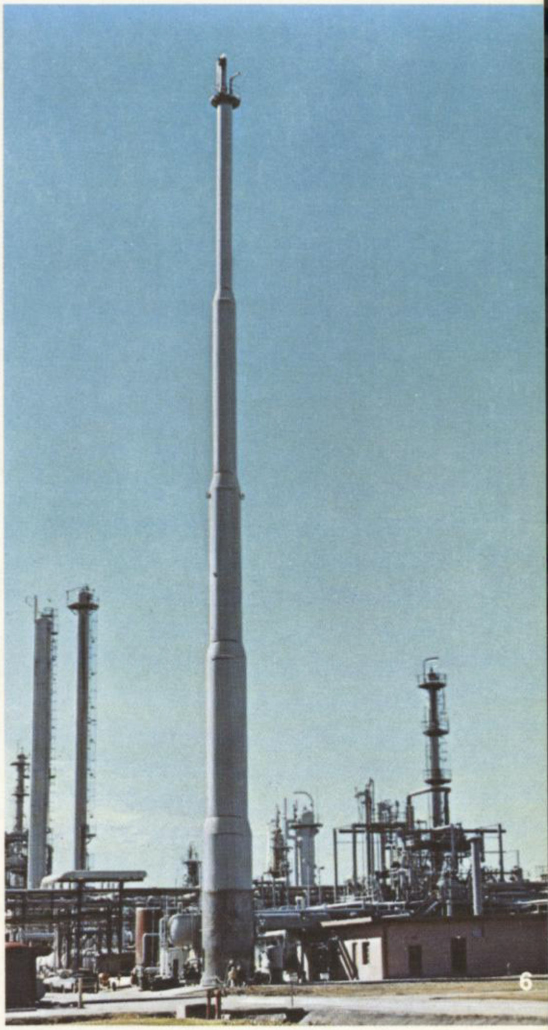
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quantities of which are used as raw materials in Shell processes, began at a new unit at the Houston Plant. Facilities for making sulfolane, an extractive solvent used in refineries and natural gas plants, were completed and brought on stream at the Norco Plant. At Geismar, Louisiana, construction proceeded on an entirely new plant, which is scheduled for completion in 1967. One part of the Geismar Plant will become Shell's second installation for making NEODOL* primary alcohols, which are the most advanced raw materials used in the manufacture of biologically soft detergents. The other part will be a large complex producing ethylene oxide and derivatives, including ethylene glycol for anti-freeze.

Petrochemicals

The Petrochemicals Division completed its first full year of operation as a division of Shell Chemical. Market demand for benzene, toluene and xylene was very strong throughout the year. Additional supplies of these aromatics are being obtained as a result of process improvements in existing units. Construction of two large plants is scheduled to be completed during 1967. One is the ethylene plant at Norco with a capacity of 500 million pounds a year. The other is a para-xylene plant at Houston with a capacity of 100 million pounds a year. Wax sales were at a high level despite the intrusion of other materials into the paper coatings industry. Several wax polymer blends were introduced during the year. Three new sulfur recovery plants went into operation at the Houston, Martinez and Norco refineries, providing additional quantities of sulfur, which is in short supply.

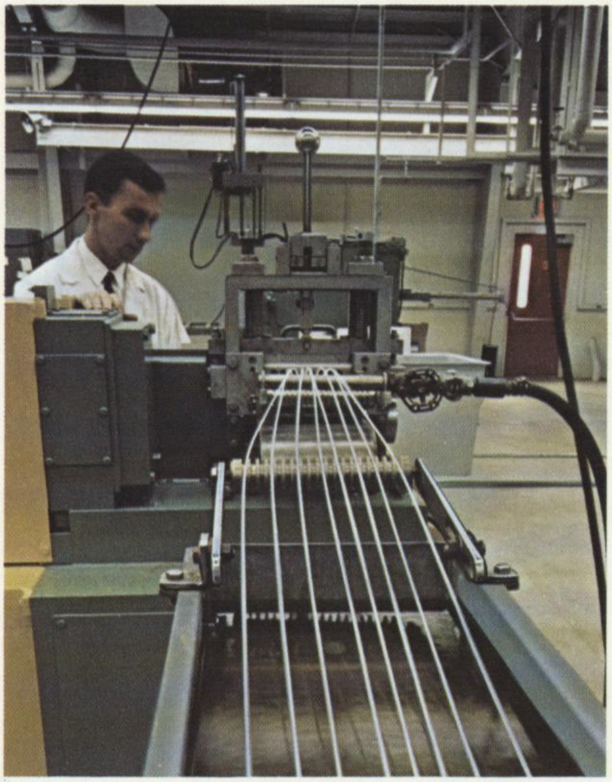
Plastics and Resins

The Plastics and Resins Division achieved record sales in 1966. The EPON® resin business grew as usage increased steadily in both surface coatings and structural applications, particularly automotive finishes and appliance parts, where superior toughness is required. Participation in the thermoplastics business also increased as development work continued to open new market opportunities for plastics, generally by replacing other materials because of plastics' superior performance and economy. Commercial sales of polypropylene copolymers were initiated in 1966. These copolymers find their major applications in such items as luggage, automotive parts and appliance parts in which their superior toughness and impact resistance are important. New grades of polystyrene with high-impact strength were added to the product line, permitting a significant volume of new sales to the appliance industry.

Synthetic Rubber

The Synthetic Rubber Division attained a new high in sales revenues despite price weakness in almost all of the types of rubber which the Company makes. Two of the Division's new types of thermoplastic synthetic rubber, KRATON® and THERMOLASTIC® polymer, are gaining acceptance for a growing variety of elastomer applications. Other types of this material, which does not require vulcanization, have been test marketed with encouraging results.

*Shell Trademark



After extensive experimentation and development work at the Plastics Technical Center near Woodbury, New Jersey, which included test runs on extruding machines as shown here, commercial sales of a new type of tougher polypropylene were started last year.

RESEARCH

Vigorous programs of research and development were continued in 1966 in direct support of Shell's operations in exploration and production, M-T-M, and chemicals. The results of some of this research are referred to in other parts of this report.

Basic Science and Engineering

Underlying the operations-related or business-related programs is a strong research effort in selected areas of basic science and engineering. The subjects of study include materials engineering and analytical methods, instrumentation and control devices, catalysis, fundamental chemical engineering, physical separations and applied mathematics. Such efforts furnish new knowledge leading to advances in Shell's operations and provide a source of specialized skills.

Physical Separations

Research in physical separations led to the Shell SULFINOL® Process for removal of acid gases from natural gas and process gas streams. Markedly superior to previous processes, the SULFINOL method is being used by Shell and by others under license from Shell in many new plants requiring such separations, and in several older plants as well.

Instrumentation and Computers

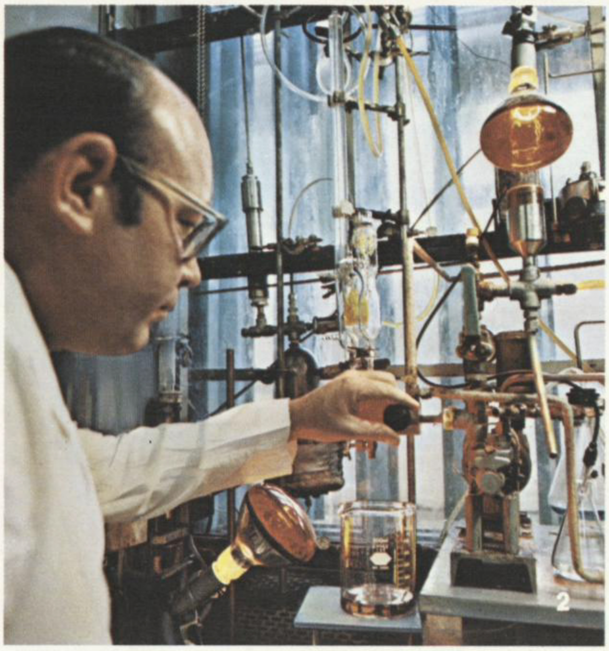
In the areas of instrumentation the principles developed in general research have led to systems for stepping up the efficiency of exploration and production, of refinery and chemical plant units and of pipeline installations. Research in modern mathematical principles and the use of computers has aided the operation of exploration, production and manufacturing units. This research has also helped to extend the application of computers to the solution of business problems.

General research on selection of materials for construction and on analytical methods has contributed to the design of the new hydrocracking units at the Martinez and Norco refineries.

Facilities and Staff

Shell research is conducted in 12 laboratories operated by Shell Development Company, Shell Oil Company, Shell Chemical Company, Shell Pipe Line Corporation and Sonico, Inc. In 1966, some 2,700 persons were engaged in Company research.

The Company and a subsidiary of Bataafse Petroleum Maatschappij N.V. have continued an arrangement whereby each will perform for and exchange with the other research services in the fields of petroleum technology, chemicals, and other fields.



(1) *A research chemist at the Emeryville Research Center analyzes surface active agents in a biologically soft detergent made from NEODOL alcohol.* (2) *NEODOL alcohol and its derivatives are processed in this Shell-designed experimental reactor to make laboratory quantities of new types of sulfates used in the development of improved detergents.*

STAFF SERVICES

EMPLOYEE RELATIONS

Shell's vitality as an organization is demonstrated by the effectiveness with which employees used their initiative, knowledge and skills to help maintain the continuing growth of the Company during 1966 and to meet the challenges posed by such growth.

One of the major problems of industry in recent years has been to attract and develop manpower capable of coping with the ever-increasing complexity of modern business. Shell has taken and is taking extensive steps in this direction. The Company is successfully recruiting new staff from among the best qualified talent available. In addition, every effort is being made to develop to the maximum the talents and capabilities of all employees through the application of training programs that are part of the normal job development, and those that involve special programs within the Company and outside.

The number of employees at the year end was 37,058, or 2,510 more than a year earlier. Last year, 699 employees retired, bringing to 10,833 the number of those who have retired on pension since the Shell Pension Plan began in 1938.

The cost of wages, salaries and benefits during 1966 was $394.6 million, $34.2 million more than in 1965. The increase was due largely to expanding operations in all segments of the business, and to the upward movement of wages and salaries generally.

In its current season, "Shell's Wonderful World of Golf" introduced many innovations in cinematic techniques in a TV golf show, including instant replays and split-screen treatment, as shown here, which enabled viewers to compare simultaneously the swings of the competing golfers.

The Shell Provident Fund provides employees with a desirable means for saving on a regular and profitable basis. Eligible participants can direct that all or part of the Company's contributions to their Provident Fund accounts be invested in the common stock of the Company. The number of employees participating in the Shell Stock Fund at the end of 1966 was 16,123. During 1966, such investments, amounting to $17.3 million, represented 280,741 shares, all of which, except for a small number which resulted from transfers among individual accounts within the Shell Stock Fund, were purchased on the New York Stock Exchange. As authorized by Board action, the Company recently made available for purchase at market prices by the Fiduciary of the Shell Stock Fund 150,000 shares of the Company's authorized but unissued stock at a rate not to exceed 10,000 shares a month. At year end, the Fiduciary held for Stock Fund members 1,324,549 shares of the Company's common stock; the number of shares outstanding at that time was 60,957,865.

Labor negotiations which started late in the fall of 1966 under agreements expiring on December 31, 1966, led to new agreements early in 1967 at most unionized locations. In broad terms, the contracts, which generally run through 1968, and conform to a general oil industry pattern, include: a wage increase of 14 cents an hour effective January 1, 1967; an additional 4 percent wage increase effective January 1, 1968; and increases in hospitalization benefits and night shift bonus rates. At a number of locations, a wholly unacceptable ''job for life'' demand was ultimately resolved by an understanding that prior notice of intended layoffs would be given by the Company, with the union then to have the right, under certain conditions, to terminate the existing agreement.

PUBLIC RELATIONS

Two successful institutional advertising campaigns in 1966 won formal recognition for their quality and effectiveness. ''Shell's Wonderful World of Golf'' was given an ''Emmy'' award by the National Academy of Television Arts and Sciences for program achievement in sports. ''The National Drivers Test'' received the Alfred P. Sloan Radio-TV Award for Highway Safety, administered by the Automotive Safety Foundation; the George Foster Peabody

Radio and Television Award, for television innovation; and the National Safety Foundation Public Service Award, for the most significant and distinguished contribution to accident prevention.

PURCHASING

Procurement of materials and services for the Shell companies has reached a level of more than a billion dollars annually. The importance of effecting maximum savings in this volume of buying is self-evident, and Purchasing is organized along lines which enable it to conduct its function with the greatest efficiency.

The New York Data Service Center (below) is one of seven such facilities utilizing a variety of electronic data processing equipment. The others are at Menlo Park, California; Tulsa, Oklahoma; Los Angeles; Houston; New Orleans; and Chicago.

SHELL COMPANIES FOUNDATION

The Shell Companies Foundation, Incorporated, which receives donations from Shell companies, had a contributions budget in 1966 of $2,313,900, of which $1,654,900 was for aid-to-education programs. These programs were designed to provide support to 227 colleges and universities, to national education organizations and to programs sponsored by the Foundation for strengthening the teaching of pre-college science and mathematics, and to help stimulate the study and understanding of developing countries.

Allocations for charitable and public service organizations amounted to $659,000. About $550,000 of this went to Community Chests and Red Cross chapters or United Funds in locations where Shell people live and work. From its establishment in 1953 through 1966, the Foundation made donations totaling $17,204,784, of which $10,666,972 was for aid to education.

FINANCIAL REVIEW ▶

Shell Oil Company and Subsidiary Companies

STATEMENT OF INCOME AND RETAINED EARNINGS

	YEAR 1966	YEAR 1965
REVENUES		
Sales and other operating revenue	$3,349,693,000	$3,091,877,000
Dividends, interest and other income	16,348,000	13,041,000
	3,366,041,000	3,104,918,000
COSTS AND EXPENSES		
Purchased oils and chemicals	1,169,760,000	1,080,011,000
Costs and operating expenses	660,189,000	617,200,000
Selling, general and administrative expenses	281,371,000	251,410,000
Income, operating and consumer taxes	709,917,000	652,984,000
Depreciation, depletion, amortization and retirements, including dry holes	266,504,000	253,415,000
Interest on long term debt	23,100,000	15,867,000
	3,110,841,000	2,870,887,000
NET INCOME—$4.19 per share (1965—$3.85 per share) outstanding at year end	255,200,000	234,031,000
RETAINED EARNINGS at beginning of year	1,273,694,000	1,142,857,000
	1,528,894,000	1,376,888,000
Cash dividends paid—$1.90 per share (1965—$1.70 per share)	115,731,000	103,194,000
RETAINED EARNINGS at end of year	$1,413,163,000	$1,273,694,000

The notes on pages 24, 25, and 26 are an integral part of these statements.

STATEMENT OF FINANCIAL CONDITION

	DECEMBER 31, 1966	DECEMBER 31, 1965
Assets		
CURRENT ASSETS		
Cash	$ 37,867,000	$ 44,258,000
Short term securities, at cost approximating market	155,038,000	171,615,000
Receivables and prepayments	523,635,000	446,998,000
Owing by affiliated companies	8,833,000	5,521,000
Inventories of oils and chemicals	244,398,000	222,325,000
Materials and supplies, at average cost or less	30,936,000	26,702,000
TOTAL CURRENT ASSETS	1,000,707,000	917,419,000
INVESTMENTS, LONG TERM RECEIVABLES, ETC., at cost	40,152,000	37,802,000
PROPERTIES, PLANT AND EQUIPMENT, at cost, less accumulated depreciation, depletion and amortization	1,993,956,000	1,716,243,000
	$3,034,815,000	$2,671,464,000
Liabilities and Shareholders' Investment		
CURRENT LIABILITIES		
Payables, accruals, etc.	$ 396,274,000	$ 349,738,000
Income, operating and consumer taxes	172,819,000	145,639,000
Owing to affiliated companies	7,681,000	6,509,000
Long term debt due within one year	7,000,000	3,250,000
TOTAL CURRENT LIABILITIES	583,774,000	505,136,000
LONG TERM DEBT	553,107,000	415,535,000
SHAREHOLDERS' INVESTMENT		
Common stock, authorized 80,000,000 shares, $1.00 par value, issued 61,032,168 shares (1965—60,865,518 shares) at stated value	227,609,000	227,442,000
Amount in excess of common stock stated value	259,976,000	254,526,000
Retained earnings	1,413,163,000	1,273,694,000
	1,900,748,000	1,755,662,000
Less 74,303 shares (1965—113,009 shares) held in treasury, at cost	2,814,000	4,869,000
TOTAL SHAREHOLDERS' INVESTMENT	1,897,934,000	1,750,793,000
	$3,034,815,000	$2,671,464,000

The notes on pages 24, 25, and 26 are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

1. GENERAL

The financial statements include the accounts of Shell Oil Company and all wholly owned subsidiary companies. Investments in less than wholly owned companies are carried at cost and dividends are recorded in income as received; the excess of underlying equity in such companies over investment cost at December 31, 1966 was not material.

The Company and its subsidiaries continued in 1966 to have transactions, including the purchase, sale, and transportation of crude oil, petroleum and chemical products in the ordinary course of business, with subsidiaries of Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, Limited, parent companies of Shell Oil Company.

2. INCOME, OPERATING AND CONSUMER TAXES

	1966	1965
Consumer Taxes		
Excise and sales taxes on products sold	$559,888,000	$529,668,000
Operating Taxes		
Real and personal property	36,555,000	31,208,000
Oil and gas production	28,338,000	27,627,000
Social security	11,567,000	9,239,000
Other	15,684,000	14,766,000
	92,144,000	82,840,000
Income Taxes		
Federal and other	57,885,000	40,476,000
	$709,917,000	$652,984,000

3. SHELL PENSION PLAN

The Shell Pension Plan covers the regular full-time employees of the Company and its principal subsidiary. The 1966 pension expense under this Plan was $21,144,000, which includes provision to fully amortize prior service cost over a period of 16 years from January 1, 1966. The Company's policy is to fund pension cost charged against income.

4. INCENTIVE COMPENSATION PLAN

In April 1966 the shareholders approved an incentive compensation plan under which the Board of Directors may, with respect to each of the five calendar years beginning with 1966, make incentive compensation awards to key employees (including officers and directors who are key employees) of the Company or of any of its wholly owned subsidiaries. These awards, in the aggregate, shall not exceed 2½% of the amount by which the adjusted net income of the Company and consolidated subsidiary companies for the year (as defined in the Plan) shall exceed 7½% of the capital employed by the Company and such subsidiary companies during that year (as defined in the Plan). Awards are payable in full at the time of the award either in cash, in shares of the Company's common stock, or in combination. A provision for awards was made and charged against income for 1966 in anticipation of awards for that year to be made in 1967.

5. RECEIVABLES

The receivables amounted to $479,681,000 at December 31, 1966 and $419,027,000 at December 31, 1965, after deducting allowance for doubtful accounts of $10,423,000 and $7,952,000, respectively.

6. INVENTORIES OF OILS AND CHEMICALS

The Company follows the policy of charging to costs the highest of inventory carrying value, current cost of production, or purchases. The inventories of oils and chemicals are carried at resulting average cost or market, whichever is lower.

7. PROPERTIES, PLANT AND EQUIPMENT

	Gross Book Value	Accumulated Depreciation, Etc.	Net Book Value
	(Thousands of Dollars)		
Production properties	$2,339,507	$1,340,851	$ 998,656
Oil refineries	908,040	514,373	393,667
Chemical plants	435,007	237,341	197,666
Marketing facilities ..	444,771	181,872	262,899
Pipelines and other transportation facilities	240,346	141,401	98,945
Miscellaneous facilities	76,489	34,366	42,123
Total Dec. 31, 1966 ...	$4,444,160	$2,450,204	$1,993,956
Total Dec. 31, 1965 ...	$4,050,899	$2,334,656	$1,716,243

Depreciation, depletion and amortization of the capital cost of producing properties, both intangible and tangible, are provided for on a unit of production basis over the estimated recoverable oil and gas reserves. Intangible expenditures applicable to dry holes are charged to income currently. Other plant and equipment are depreciated on a straight line basis over their estimated useful lives.

Intangible development expenditures are deducted for federal income tax purposes as incurred; however, an amount equivalent to the tax effect resulting from the difference between such expenditures and the amortization charges determined on a unit of production basis is included as amortization. Additional depreciation is provided in the accounts in recognition of the tax effect of the difference between the amount of accelerated depreciation claimed in the federal income tax return and the depreciation reflected in the accounts. Based upon experience of the Company, nonproducing leasehold costs are amortized from the date of acquisition, giving due consideration to the effect of tax deductibility in the year of surrender.

8. LONG TERM DEBT

	Dec. 31, 1966
Shell Oil Company	
Twenty-five Year $2\frac{1}{2}\%$ Debentures, due 1971, after deducting $5,491,000 of debentures held in treasury	$ 48,107,000
$4\frac{5}{8}\%$ Sinking Fund Debentures Due 1986, after deducting $1,000,000 of debentures held in treasury	199,000,000
$4\frac{1}{2}\%$ Notes due 1990	150,000,000
5% Debentures Due 1991	150,000,000
Shell Pipe Line Corporation	
3.30% notes payable to banks and others due 1967	1,000,000
4.50% note payable to bank due 1967 to 1969	12,000,000
	560,107,000
Less amounts included in Current Liabilities as due within one year	7,000,000
	$553,107,000

Of the foregoing long term debt due after one year, $11,509,000 will be due in 1968, $18,000,000 in 1969, $15,000,000 in 1970 and $48,598,000 in 1971.

9. INCENTIVE STOCK OPTION PLANS

At December 31, 1966, 428,300 shares of the Company's authorized but unissued common stock were reserved under the Plans, adopted in 1956 and in 1965, for sale to key employees, including executives. Prior to August 22, 1963, options were granted for terms not exceeding ten years at not less than 95% of the fair market value at the date of grant. Commencing August 22, 1963, options have been granted for terms not exceeding five years at not less than 100% of the fair market value at the date of grant. Generally, such options may not be exercised within eighteen months of the date of grant. Options granted after August 21, 1963, are by their terms not exercisable until after certain earlier options have been exercised or the time for their exercise has expired, as provided in the Internal Revenue Code of 1954, as amended, with respect to qualified stock options.

Changes during 1966 in options outstanding were as follows:

	Shares Under Option	
	1956 Plan	1965 Plan
Outstanding January 1, 1966 (of which 273,950 were exercisable)	294,950	71,400
Granted at average price of $62.19 per share	—	48,000
Exercised at average price of $37.52 per share	(166,650)	—
Outstanding December 31, 1966 (of which 186,700 were exercisable)	128,300	119,400

The 1956 Plan was terminated in 1965 without affecting outstanding options. Under the 1965 Plan the number of shares available for future options amounted to 228,600 at January 1 and 180,600 at December 31, 1966.

Under the 1956 Plan, options covering 466,900 shares have been adjusted (through reducing the purchase price of each share by 7.34%) to reflect the effect thereon of the distribution to the Company's shareholders of all Shell Canada Limited stock held by the Company on November 1, 1962.

In 1966 $6,440,000 was received for shares issued upon exercise of options and $823,000 was refunded to effect the reduction referred to in the preceding paragraph with respect to options which have been exercised. In consequence of these transactions $167,000 was credited to capital (common stock) and the net of $5,450,000 was credited to capital surplus (amount in excess of common stock stated value).

10. COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 1966, Shell Oil Company and subsidiary companies had noncancellable leases and other contractual commitments with an average unexpired life of approximately 6½ years covering service stations, office space, tankers and other facilities. For the year 1967, the minimum amounts payable (without reduction for related rental income) under such commitments having a remaining life of over one year are estimated at $59,000,000.

Shell Oil Company might be required under certain conditions to make payments under guaranty and other contractual arrangements entered into in connection with pipelines and other facilities used for handling the Company's products. At December 31, 1966, the contingent liability under such arrangements did not exceed $2,000,000 applicable to 1967 and a total of $42,700,000 for years subsequent thereto.

None of the companies had any commitments or contingent liabilities which, in the judgment of the Management, would result in losses which would materially affect their financial positions.

SOURCE AND DISPOSITION OF FUNDS

	66	65
SOURCE OF FUNDS	(MILLIONS)	
Net income	$255.2	$234.0
Depreciation, depletion, amortization and retirements	213.7	204.7
Dry hole costs (included in capital expenditures)	52.8	48.7
TOTAL FUNDS DERIVED FROM OPERATIONS	521.7	487.4
Net increase in long term debt	137.6	148.1
Property sales and salvage	17.6	8.5
Company shares sold less shares acquired	7.6	7.3
TOTAL	$684.5	$651.3
DISPOSITION OF FUNDS		
Capital expenditures including dry hole costs	$564.0	$488.8
Dividends paid	115.7	103.2
Other items (net)	.2	—
Working capital increase	4.6	59.3
TOTAL	$684.5	$651.3

Opinion of Independent Accountants

TO THE SHAREHOLDERS OF SHELL OIL COMPANY:

In our opinion, the accompanying statement of financial condition, the related statement of income and retained earnings, and the statement of source and disposition of funds as shown above, present fairly the financial position of Shell Oil Company and consolidated subsidiary companies at December 31, 1966, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

New York, N. Y.
February 17, 1967

PRICE WATERHOUSE & CO.

TEN YEAR REVIEW OF FINANCIAL DATA

(dollars in thousands except per share amounts)

		66	65
INCOME AND DIVIDENDS	Net income	$ 255,200	234,031
	Net income per share*	$ 4.19	3.85
	Cash dividends	$ 115,731	103,194
	Cash dividends per share*	$ 1.90	1.70
	Cash income (net income plus write-offs)	$ 521,704	487,446
REVENUES	Sales and other operating revenue		
	Refined products†	$1,699,770	1,578,006
	Chemical products†	$ 400,676	355,359
	Natural gas	$ 121,754	104,476
	Crude oil	$ 513,718	497,323
	Other operating revenue	$ 53,887	27,045
	Consumer excise and sales taxes	$ 559,888	529,668
	TOTAL	$3,349,693	3,091,877
	Dividends, interest and other income	$ 16,348	13,041
	TOTAL REVENUES	$3,366,041	3,104,918
COSTS AND EXPENSES	Income and operating taxes	$ 150,029	123,316
	Depreciation, depletion, amortization and retirements, including dry holes	$ 266,504	253,415
	Salaries, wages and employee benefits		
	Salaries and wages	$ 296,987	270,659
	Employee benefits (including vacation, holiday and sick pay)	$ 97,607	89,734
	TOTAL	$ 394,594	360,393
	Number of employees at year end	37,058	34,548
FINANCIAL CONDITION AT YEAR END	Current assets	$1,000,707	917,419
	Current liabilities	$ 583,774	505,136
	WORKING CAPITAL	$ 416,933	412,283
	Properties, plant and equipment	$4,444,160	4,050,899
	Accumulated depreciation, depletion and amortization	$2,450,204	2,334,656
	NET PROPERTIES, PLANT AND EQUIPMENT	$1,993,956	1,716,243
	Total assets	$3,034,815	2,671,464
	Long term debt	$ 553,107	415,535
	Shareholders' investment	$1,897,934	1,750,793
	Shares outstanding (thousands)	60,958	60,753
	Number of shareholders	24,566	23,917
CAPITAL EXPENDITURES	Drilling and production (including dry holes)	$ 252,740	253,812
	Oil refineries	$ 113,551	122,165
	Chemical plants	$ 75,592	43,518
	Marketing facilities	$ 96,623	39,427
	Pipelines and other transportation facilities	$ 14,824	22,854
	Miscellaneous facilities	$ 10,645	7,064
	TOTAL	$ 563,975	488,840
EXPLORATION AND PRODUCTION EXPENDITURES	Oil and gas leases	$ 15,418	41,609
	Producing wells and equipment	$ 172,871	152,262
	Natural gas processing plants	$ 11,657	11,273
	Dry holes	$ 52,794	48,668
	Geological, geophysical and land expenses	$ 65,603	63,856
	Lease rentals	$ 11,390	10,452
	TOTAL	$ 329,733	328,120

**Per share outstanding at each year-end adjusted for stock dividends and splits.*
†Years 1957 to 1965 inclusive restated for comparative purposes to reclassify as petrochemicals certain products previously included as refined products.

***In addition, one Class "A" Common Share of Shel*

Shell Oil Company and Subsidiary Companies

64	63	62	61	60	59	58	57
198,190	179,852	157,675	140,358	144,588	147,418	128,583	152,940
3.27	2.97	2.60	2.32	2.39	2.43	2.12	2.52
90,798	78,658	66,636	66,636	66,631	62,088	60,573	60,573
1.50	1.30	1.10**	1.10	1.10	1.02½	1.00	1.00
437,508	401,523	359,058	334,212	345,608	342,807	323,148	362,888
1,422,978	1,320,023	1,231,890	1,155,947	1,125,819	1,118,157	1,091,147	1,156,024
319,693	295,234	272,151	262,521	271,560	265,011	221,926	240,846
95,653	86,392	74,643	75,378	70,245	48,118	38,955	35,145
469,468	414,131	367,260	368,066	345,202	358,612	300,919	319,981
24,149	12,857	14,789	19,376	15,006	20,055	13,042	12,606
491,464	434,043	390,438	357,351	340,000	320,005	287,765	282,466
2,823,405	2,562,680	2,351,171	2,238,639	2,167,832	2,129,958	1,953,754	2,047,068
11,169	11,943	8,959	8,978	10,650	10,001	8,143	8,757
2,834,574	2,574,623	2,360,130	2,247,617	2,178,482	2,139,959	1,961,897	2,055,825
92,986	105,745	86,042	86,142	93,401	98,948	66,214	89,662
239,318	221,671	201,383	193,854	201,020	195,389	194,565	209,948
259,696	245,738	244,200	266,053	258,774	255,211	246,195	247,434
82,834	81,645	80,767	86,099	87,488	86,356	79,157	78,380
342,530	327,383	324,967	352,152	346,262	341,567	325,352	325,814
33,578	32,191	33,908	35,586	38,290	38,217	38,572	40,465
773,914	798,128	669,730	682,842	599,169	607,841	564,888	557,556
420,968	362,405	301,650	303,948	282,276	308,722	265,150	263,791
352,946	435,723	368,080	378,894	316,893	299,119	299,738	293,765
3,704,588	3,403,284	3,261,080	3,092,547	2,912,786	2,713,970	2,516,309	2,377,477
2,217,507	2,101,551	1,979,703	1,885,524	1,775,893	1,655,458	1,534,449	1,413,902
1,487,081	1,301,733	1,281,377	1,207,023	1,136,893	1,058,512	981,860	963,575
2,301,030	2,138,803	1,989,100	2,076,235	1,885,344	1,767,309	1,648,271	1,601,623
267,424	273,219	283,123	295,239	200,002	133,478	143,342	166,037
1,612,638	1,503,179	1,404,327	1,477,048	1,403,066	1,325,109	1,239,779	1,171,745
60,561	60,496	60,548	60,580	60,573	60,573	30,287	30,286
23,669	23,070	22,183	20,403	20,018	19,730	19,307	19,685
253,401	180,058	214,281	179,685	199,979	207,345	143,352	183,675
78,296	25,596	11,787	17,312	26,800	24,516	33,695	36,193
25,903	8,221	20,671	39,795	18,014	21,268	11,410	16,540
43,605	28,108	27,105	24,777	29,726	18,518	16,920	19,771
21,492	4,680	4,076	5,617	6,589	5,347	13,618	3,567
9,254	5,407	4,834	2,728	2,933	3,079	4,087	5,889
431,951	252,070	282,754	269,914	284,041	280,073	223,082	265,635
41,933	40,970	85,250	34,352	66,065	68,811	15,514	26,007
151,853	96,415	91,492	112,158	102,601	100,239	96,911	127,592
9,093	3,951	3,874	9,380	2,340	7,007	1,344	1,840
50,522	38,722	33,665	23,795	28,973	31,288	29,583	28,236
61,381	59,573	56,201	62,831	60,345	55,587	51,685	58,318
14,385	13,012	12,061	10,454	9,488	9,096	9,450	11,213
329,167	252,643	282,543	252,970	269,812	272,028	204,487	253,206

Canada Limited was distributed for each five shares of Common Stock of the Company.

TEN YEAR REVIEW OF OPERATING DATA

(daily average barrels in thousands)

		66	65
EXPLORATION AND DRILLING	Net acreage (in thousands)		
	Producing	897	860
	Non-producing	9,983	11,405
	TOTAL	10,880	12,265
	Net wells drilled		
	Exploratory—oil and gas	39	35
	dry holes	122	104
	Development—oil and gas	534	413
	dry holes	77	126
	TOTAL	772	678
	Net oil and gas wells producing or capable of producing	14,594	14,670
PRODUCTION	Crude oil and natural gas liquids produced (daily avg. barrels)		
	Gross	543	493
	Net		
	California	69	65
	Louisiana	208	187
	Montana	22	21
	New Mexico	16	15
	Oklahoma	15	15
	Texas	113	101
	Other	31	27
	TOTAL	474	431
	Natural gas liquids produced (incl. in above) (daily avg. barrels)	52	47
	Gross natural gas produced (million cubic feet daily)	2,180	1,926
	Net natural gas produced (million cubic feet daily)	1,834	1,626
	Crude oil purchased (daily average barrels)	797	789
	Crude oil sold (daily average barrels)	505	493
MANUFACTURING	Refinery crude intakes (daily average barrels)		
	Anacortes	76	71
	Houston	144	142
	Martinez	36	36
	Norco	152	137
	Odessa/Ciniza	38	35
	Wilmington	87	88
	Wood River	200	191
	TOTAL	733	700
	Refined products manufactured (daily average barrels)		
	Gasolines	365	350
	Distillates	222	213
	Residuals	64	70
	All other products	107	101
	TOTAL	758	734
TRANSPORTATION	Trunk pipeline mileage—crude oil (incl. partially-owned)	6,432	6, 460
	Trunk pipeline mileage—products (incl. partially-owned)	7,821	7,361
	Crude oil transported by pipelines (million barrel miles)	104,715	100,770
	Products transported by pipelines (million barrel miles)	35,239	31,434
MARKETING	Refined products sold (daily average barrels)†		
	Gasolines	424	394
	Distillates	267	254
	Residuals	83	89
	All other products	98	93
	TOTAL	872	830
	Natural gas sold (million cubic feet daily)	1,897	1,661
	Bulk distributing plants (leased and owned)	707	703
	Retail outlets (leased and owned)	11,900	11,500
	Retail outlets (other)	12,300	13,100

†Years 1957 to 1965 inclusive restated for comparative purposes.

Shell Oil Company and Subsidiary Companies

64	63	62	61	60	59	58	57
844	723	695	656	599	552	520	479
14,702	15,066	14,619	14,164	13,395	12,509	11,675	14,487
15,546	15,789	15,314	14,820	13,994	13,061	12,195	14,966
52	32	16	27	36	40	31	38
142	108	85	72	101	127	105	183
732	479	505	607	589	612	573	750
83	88	102	75	80	65	73	62
1,009	707	708	781	806	844	782	1,033
14,699	14,152	13,549	13,077	12,096	11,825	11,374	11,172
466	452	430	415	404	398	379	399
64	63	65	72	77	81	83	88
170	156	141	122	113	98	84	91
23	23	21	21	20	17	20	19
13	13	13	14	16	18	18	17
15	15	15	14	15	15	18	21
95	93	88	84	80	82	76	85
27	31	32	36	33	37	35	29
407	394	375	363	354	348	334	350
42	42	38	35	34	32	32	33
1,821	1,656	1,516	1,310	1,231	983	886	892
1,559	1,413	1,299	1,129	1,064	853	770	768
753	677	608	599	543	534	451	489
459	408	363	369	347	357	277	286
69	54	55	46	44	42	40	42
138	143	119	114	107	111	104	120
40	42	42	35	39	38	39	50
120	115	115	108	103	100	90	91
25							
87	84	77	71	70	69	63	74
191	193	161	181	172	155	158	168
670	631	569	555	535	515	494	545
333	308	281	283	276	271	263	274
196	193	174	160	140	129	112	130
71	69	61	58	58	62	62	83
97	84	71	78	80	68	69	69
697	654	587	579	554	530	506	556
6,421	6,128	6,054	5,984	5,988	6,081	5,959	5,304
7,040	6,302	6,145	4,998	4,725	4,720	4,718	4,670
98,837	96,836	83,962	94,213	90,632	86,368	78,495	80,804
26,943	26,033	23,851	21,730	21,215	20,795	20,116	21,317
370	335	314	293	279	286	272	272
227	212	199	171	150	135	126	129
83	80	68	66	68	64	72	82
84	78	70	67	67	65	64	57
764	705	651	597	564	550	534	540
1,565	1,429	1,335	1,184	1,109	942	863	875
701	699	737	744	771	773	784	786
11,300	10,700	10,300	9,900	9,500	9,000	8,800	8,400
13,000	12,800	12,900	13,300	13,400	14,200	14,600	14,800

BOARD OF DIRECTORS

MONROE E. SPAGHT*	*Chairman A Managing Director, Royal Dutch Petroleum Company*
R. C. McCURDY*	*President*
D. H. BARRAN	*A Managing Director of The "Shell" Transport and Trading Company, Limited*
WILLIAM BLACKIE	*Chairman of the Board and Chief Executive Officer of Caterpillar Tractor Co.*
L. E. J. BROUWER	*President, Royal Dutch Petroleum Company*
E. G. CHRISTIANSON	*Executive Vice President*
CHARLES de BRETTEVILLE	*President and Chief Executive Officer, The Bank of California National Association*
JAMES H. DOOLITTLE	*Lieutenant General, United States Air Force, Retired*
WILLIAM P. GWINN	*President, United Aircraft Corporation*
C. W. HUMPHREYS*	*President, Shell Chemical Company*
D. B. KEMBALL-COOK*	*Executive Vice President*
S. M. McASHAN, JR.	*Chairman of the Board of Anderson, Clayton & Co.*
HAROLD F. McGUIRE*	*Partner of Wickes, Riddell, Bloomer, Jacobi & McGuire*
E. CHESTER PEET	*Voting Trustee, Trans World Airlines, Inc.*

**Member of the Executive Committee*

DIRECTORS EMERITI

JEROME C. HUNSAKER THOMAS A. MORGAN

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R. C. McCURDY	*President*
E. G. CHRISTIANSON	*Executive Vice President*
D. B. KEMBALL-COOK	*Executive Vice President*
MONROE E. SPAGHT	*Chairman of the Executive Committee*
E. A. HUGILL, JR.	*Secretary*
R. H. RICHARDS	*Controller*
M. E. ROBINSON	*Treasurer*

VICE PRESIDENTS

Exploration and Production

B. P. EASTIN	*Production*
R. E. McADAMS	*Exploration*
G. C. BANKSTON	*Houston Area*
J. F. BOOKOUT	*Denver Area*
C. P. BRISTOL	*Midland Area*
G. A. BURTON	*Pacific Coast Area*
J. E. WILSON	*New Orleans Area*

Manufacturing

M. P. L. LOVE

Marketing

P. C. THOMAS	
C. A. FOSTER, JR.	*Western Marketing Region*
M. B. HOLDGRAF	*Central Marketing Region*
F. H. STAUB	*Eastern Marketing Region*
C. L. TOWERS	*Southern Marketing Region*

Financial

J. A. HORNER

Legal

W. F. KENNEY

Personnel and Industrial Relations

J. C. QUILTY

Public Relations

G. G. BIGGAR

Purchasing

G. W. HULDRUM, JR.

Transportation & Supplies

J. B. St. CLAIR

SHELL CHEMICAL COMPANY

a Division of Shell Oil Company

C. W. HUMPHREYS	*President*
J. P. CUNNINGHAM	*Vice President*
B. M. DOWNEY	*Vice President*
S. H. McALLISTER	*Vice President*
W. Q. MOONEY	*Vice President*
C. L. RAYMOND	*Vice President*

SHELL DEVELOPMENT COMPANY

a Division of Shell Oil Company

T. W. EVANS	*President*
S. A. BALLARD	*Vice President*
T. BARON	*Vice President*
A. J. JOHNSON	*Vice President*
N. D. SMITH, JR.	*Vice President*

SHELL PIPE LINE CORPORATION

J. H. PITTINGER	*President*
R. L. KOONS	*Treasurer*
W. J. WILLIAMSON	*Secretary*

HEAD OFFICES

SHELL OIL COMPANY
50 West 50th Street, New York, N. Y. 10020

SHELL CHEMICAL COMPANY
50 West 50th Street, New York, N. Y. 10020

SHELL DEVELOPMENT COMPANY
50 West 50th Street, New York, N. Y. 10020

SHELL PIPE LINE CORPORATION
Shell Building, P.O. Box 2648, Houston, Texas 77001

TRANSFER AGENTS

IRVING TRUST COMPANY
1 Wall Street, New York, N. Y. 10015

THE BANK OF CALIFORNIA NATIONAL ASSOCIATION
545 Sansome Street, San Francisco, Calif. 94120

CONTINENTAL ILLINOIS NATIONAL BANK
AND TRUST COMPANY OF CHICAGO
231 South LaSalle Street, Chicago, Ill. 60690

Notice of change of shareholder's address should be sent to one of the above transfer agents.

REGISTRARS

MORGAN GUARANTY TRUST COMPANY OF NEW YORK
30 West Broadway, New York, N. Y. 10015

CROCKER-CITIZENS NATIONAL BANK
79 New Montgomery Street, San Francisco, Calif. 94105

HARRIS TRUST AND SAVINGS BANK
111 West Monroe Street, Chicago, Ill. 60690

EXECUTIVE CHANGES

A number of changes in the management of the Company took place in 1966.

E. G. Christianson, Vice President, Houston Exploration and Production Area, was elected Executive Vice President in charge of Exploration and Production and a Director, succeeding J. E. Clark, who retired after 34 years with Shell.

G. C. Bankston returned from an overseas appointment and was elected to replace Mr. Christianson as Vice President at Houston.

J. F. Bookout, Jr., Manager, Economics Department, Exploration and Production Organization, was elected Vice President, Denver Exploration and Production Area, succeeding W. A. Alexander, who retired after 38 years' service.

J. A. Horner, who was serving on a special assignment, was elected Vice President-Finance. He succeeded P. G. Grimshaw, who has accepted an overseas appointment.

P. J. Merkus, General Manager Refineries, was elected Vice President, Manufacturing, effective April 1, 1967, to succeed M. P. L. Love, who announced his intention to retire, after a Shell career of 33 years.

W. Q. Mooney, Manager, Trade Relations, Shell Chemical Company, was elected a Vice President, Shell Chemical.

SHELL